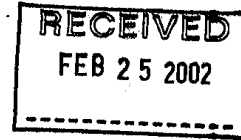




DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

February 25, 2002



MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX
ADMINISTRATION

FROM: *John M. Dalrymple*
John M. Dalrymple
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report - Federal Requirements Need
Strengthening at Lockbox Banks to Better Protect Taxpayer
Payments and Safeguard Taxpayer Information
(Audit # 200130048)

I regret the delay in providing this response and recognize it will not be included in your report on the physical and internal controls of the lockbox program in the Los Angeles bank. However, I am pleased that you found that the Los Angeles lockbox bank was in compliance with, and often exceeded, the security requirements in the IRS/Financial Management Service (FMS) Lockbox Processing Guidelines (LPG). In 2002, the LPG were updated to reflect new and enhanced controls to improve overall security and oversight of all lockbox locks.

I appreciate your insight and although we will not be able to implement all of your recommendations, we will look for alternative methods to reduce the risks you identified. In addition, since two of your recommendations deal with sensitive security issues, I appreciate your decision to exclude them from the published report. Our responses to these recommendations are included in the attachment to this memorandum.

RECOMMENDATION 1

Include a requirement in the Guidelines that at least one video surveillance camera be dedicated to observing and recording a panoramic view of each processing area.

ASSESSMENT OF CAUSE

No one camera view provided one shot of the entire processing operation which made viewing individuals moving from one area to another difficult.

This document has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Redaction Legend:

2e = Law Enforcement Procedures

CORRECTIVE ACTION

Preliminary information indicates that panoramic view cameras may be of limited value therefore, we do not plan to implement this suggestion. Although these cameras would provide a wider view of an area, they would not increase the surveillance capability of the site or recording of activity. The images recorded on a panoramic shot may not provide the needed clarity because the wider view results in less resolution. However, we will work with FMS to evaluate the LPG for enhancements to existing camera requirements.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIALS

Director, Submission Processing, Wage and Investment Division
Director, Customer Account Services, Wage and Investment Division
Director, Office of Security Evaluation and Oversight, Modernization and Information Technology
Commissioner, Wage and Investment Division

RECOMMENDATION 2

Consider involving the Office of Security in performing periodic security reviews at each lockbox site.

ASSESSMENT OF CAUSE

Oversight reviews would improve if we involved trained security experts to ensure we meet security requirements.

CORRECTIVE ACTION

To ensure the lockbox sites are adhering to the requirements of the 2002 contract, a team representing the Office of Security, FMS and other IRS business units will conduct oversight reviews. The Office of Security is working with the Office of Program Evaluation and Risk Analysis, W&I, SB/SE and FMS to develop a plan to conduct the reviews. We will complete the plan by March 1, 2002.

IMPLEMENTATION DATE

Completed

RESPONSIBLE MANAGEMENT OFFICIALS

Director, Submission Processing, Wage and Investment Division
Director, Customer Account Services, Wage and Investment Division
Director, Office of Security Evaluation and Oversight, Modernization and Information
Technology
Commissioner, Wage and Investment Division

RECOMMENDATION 3

Develop test data for use in testing disaster recovery plans at the contingency sites and ensure that tests are conducted as soon as possible.

ASSESSMENT OF CAUSE

We did not develop or test contingency plan procedures to address incidences such as biological and chemical threats or other disasters.

CORRECTIVE ACTION

We are working with FMS to execute and test a comprehensive, standardized contingency plan. We are reviewing the feasibility of adding two "hot sites," as contingency processing sites to provide additional backup capability. Recently FMS launched an effort to review and enhance the Continuity of Operations Plans for the lockboxes. The goal of this project is to develop, document and test contingency plans to use in case of an unforeseen disaster. We will complete recommendations for site plans by April 30, 2002, and plan to implement them by December 31, 2002. We will review each individual site's contingency plan in conjunction with FMS.

IMPLEMENTATION DATE

Develop recommendation for site plans: April 30, 2002
Implementation: January 1, 2003

RESPONSIBLE MANAGEMENT OFFICIALS

Director, Submission Processing, Wage and Investment Division
Director, Customer Account Services, Wage and Investment Division
Commissioner, Wage and Investment Division

RECOMMENDATION 4

Add procedures to the Guidelines for the handling of potentially contaminated mail.

ASSESSMENT OF CAUSE

Lockbox sites occasionally receive potentially contaminated mail. Each lockbox site has routine internal procedures for handling potentially contaminated mail. The IRS does not require standardized procedures.

CORRECTIVE ACTION

We will evaluate by April 30, 2002, the usefulness of requiring the lockbox sites to operate under a set of standardized procedures for the handling of potentially contaminated mail.

IMPLEMENTATION DATE

N/A

RESPONSIBLE MANAGEMENT OFFICIALS

Director, Submission Processing, Wage and Investment Division
Director, Customer Account Services, Wage and Investment Division
Commissioner, Wage and Investment Division

RECOMMENDATION 5

Add a requirement to the Guidelines that clearance must be received prior to couriers delivering and anyone processing IRS materials.

ASSESSMENT OF CAUSE

We clearly informed the lockbox banks of the requirement to have couriers receive favorable FBI fingerprint checks prior to entering on duty. At the time of TIGTA's

review, the draft 2002 LPG stated that the "FBI fingerprint check must be performed for each individual who will have access to the lockbox processing area."

CORRECTIVE ACTION

The revised LPG clearly states the requirement for the lockbox banks, an "FBI fingerprint check must be performed for each individual who will have access to the lockbox process area or taxpayer data."

IMPLEMENTATION DATE

Completed

RESPONSIBLE MANAGEMENT OFFICIALS

Director, Submission Processing, Wage and Investment Division
Director, Customer Account Services, Wage and Investment Division
Commissioner, Wage and Investment Division

RECOMMENDATION 6

Clarify the Guidelines regarding guard service requirements to include non-peak periods and periodic security reviews of non-peak periods.

ASSESSMENT OF CAUSE

The Guidelines did not adequately define non-peak requirements for guard coverage.

CORRECTIVE ACTION

We will strengthen the language in the LPG to clarify the requirements of guards during non-peak periods.

IMPLEMENTATION DATE

June 1, 2002

RESPONSIBLE MANAGEMENT OFFICIALS

Director, Submission Processing, Wage and Investment Division
Director, Customer Account Services, Wage and Investment Division
Commissioner, Wage and Investment Division

RECOMMENDATION 7

Require the use of courier services for the transport of all IRS materials.

ASSESSMENT OF CAUSE

The IRS requires the use of a courier service to transport its own deposits to the depository. The LPG does not specifically require lockbox banks to use a courier service.

CORRECTIVE ACTION

The LPG clearly defines all of the personnel and physical requirements that must be met in order to safely transport taxpayer documents/remittances. The intent of the LPG is to ensure strict adherence of these requirements, regardless of whether the banks choose to use a contracted courier service or their own staff to perform these duties. We will not require the use of courier services.

IMPLEMENTATION DATE

N/A

RESPONSIBLE MANAGEMENT OFFICIALS

Director, Submission Processing, Wage and Investment Division
Director, Customer Account Services, Wage and Investment Division
Commissioner, Wage and Investment Division

RECOMMENDATION 8

The Director, Customer Account Services, W&I Division, should request that the bank alarm the doors.

ASSESSMENT OF CAUSE

The intent of the requirement was to ensure all perimeter doors are protected by intrusion detection systems; however, the LPG is unclear in its requirement to alarm the exit doors.

CORRECTIVE ACTION

We will revise the LPG and security checklist to clearly state the requirement to alarm all exit doors leading outside of the lockbox space.

IMPLEMENTATION DATE

April 1, 2002

RESPONSIBLE MANAGEMENT OFFICIALS

Director, Submission Processing, Wage and Investment Division
Director, Customer Account Services, Wage and Investment Division
Commissioner, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will perform annual announced and unannounced security reviews to ensure lockbox banks meet all security requirements.

If you have any questions, please call me at (202) 622-6860, or Ron Watson, Director, Customer Account Services at (404) 338-8910.

Attachment

Attachment

2e



2e

